LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 7498 | **NOTE PREPARED:** Jan 10, 2009
BILL NUMBER: SB 448 | **BILL AMENDED:**

SUBJECT: Personal property tax exemption for IT equipment.

FIRST AUTHOR: Sen. Charbonneau | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: This bill provides that enterprise information technology (IT) equipment owned by an eligible business is exempt from personal property taxation for 25 years following the date on which the equipment is placed in service.

Effective Date: July 1, 2009.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under this bill, rack-mounted networking hardware and rack-mounted networking systems would be exempt from property tax for 25 years if owned by a business:

(1) whose primary activity is one of 11 specified business types, evidenced by the taxpayer's North American Industry Classification System (NAICS) code,
(2) that has a capitalization of at least $30 M in tangible property (real and personal) in Indiana, and
(3) that has an average employee wage of at least of 125% of the average county wage in each county in which it conducts business.

The exemption would apply to existing qualified property as well as new investments. If any existing assessed value is exempted, then the tax base would be reduced and tax rates would increase. The increased tax rate would shift part of the tax burden from owners of the exempt property to all other taxpayers. In areas where the circuit breaker caps have been triggered, the higher tax rates would result in a greater cost (taxing unit revenue loss) for the circuit breaker credits.

Background: A search of property tax return data reveals that there were 549 personal property tax returns filed by taxpayers with qualifying NAICS codes for taxes payable in 2008. These returns had a total gross AV of $28 M. These assessed values represent all of these taxpayer's personal property and not just the property that could qualify for exemption. These taxpayers may or may not have the requisite $30 M in capitalization.

The exemption of newly acquired property would not affect the existing tax base. If there is an increase in development because of the exemption, then other property could be added to the tax base. The enterprise information technology equipment would most likely have a life shorter than the 25 year exemption so that property would probably never be added to the tax base. However, if one assumes that the investment would be made with or without the exemption, then the granting of the exemption under this bill could also eliminate the normal shift of the property tax burden from all taxpayers to the owners of the new property that would have occurred.

State Agencies Affected:

Local Agencies Affected: County auditors; Local taxing units and school corporations.

Information Sources: LSA personal property database.

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